

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: July 22, 2021

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (Mathis, Buys, Cicchetti) *ALM*
Office of the General Counsel (Osborn) *JSB*

RE: Docket No. 20210116-WS – Petition for establishment of an approved AFUDC rate, by Utilities, Inc. of Florida.

AGENDA: 08/03/21 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Utilities, Inc. of Florida's (UIF or Company) current allowance for funds used during construction (AFUDC) rate of 9.03 percent was approved by Order No. PSC-2004-0262-PAA-WS, issued March 8, 2004.¹ Pursuant to Order No. PSC-2021-0206-FOF-WS, issued June 4, 2021, the Commission ordered UIF to file a request to revise its AFUDC rate pursuant to Rule 25-30.116, Florida Administrative Code (F.A.C.), within 30 days after the issuance of the Final Order in Docket No. 20200139-WS.² On June 22, 2021, UIF filed its petition for approval to

¹Order No. PSC-2004-0262-PAA-GU, issued March 8, 2004, in Docket No. 20031006-WS, *In re: Petition by Utilities, Inc. for approval of allowance for funds used during construction (AFUDC) for its Florida Subsidiaries including Water Service Corp.*

²Order No. PSC-2021-0206-FOF-WS, issued June 4, 2021, in Docket No. 20200139-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties, by Utilities, Inc. of Florida.*

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change its AFUDC rate from 9.03 percent to 6.43 percent, effective January 1, 2021. As required by Rule 25-30.116(5), F.A.C., UIF filed with its petition Schedules A, B, and C identifying the capital structure, capital structure adjustments, and the methodology used to calculate the monthly AFUDC rate. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S..

Discussion of Issues

Issue 1: Should the Commission approve UIF's request to decrease its AFUDC Rate from 9.03 percent to 6.43 percent?

Recommendation: Yes. The appropriate AFUDC rate for UIF is 6.43 percent based on a 12-month average capital structure for the period ended December 31, 2020. (Mathis)

Staff Analysis: UIF requested a decrease in its AFUDC rate from 9.03 percent to 6.43 percent. Rule 25-30.116(3), F.A.C., Allowance for Funds Used During Construction, provides the following guidance:

(3) The applicable AFUDC rate will be determined as follows:

(a) The most recent 12-month average embedded cost of capital, except as noted below, will be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the utility's last rate case.

(b) The cost rates for the components in the capital structure will be the midpoint of the last allowed return on common equity, the most recent 12-month average cost of short-term debt and customer deposits, and a zero cost rate for deferred taxes and all investment tax credits. The cost of long-term debt and preferred stock will be based on end of period cost. The annual percentage rate must be calculated to two decimal places.

In support of its requested AFUDC rate of 6.43 percent, UIF provided its calculations and capital structure in Schedules A and B attached to its request. Staff reviewed the schedules and determined that the proposed rate was calculated in accordance with Rule 25-30.116(3), F.A.C.

As reported on Schedule B, UIF properly included in its calculations the allowed mid-point return on equity of 9.75 percent that was approved by Order No. PSC-2021-0206-FOF-WS.³ UIF's current cost of capital supports the requested AFUDC rate of 6.43 percent.

Based on its review, staff believes that the requested decrease in the AFUDC rate from 9.03 percent to 6.43 percent is appropriate, consistent with Rule 25-30.116, F.A.C., and recommends it be approved.

Order No. PSC-2021-0206-FOF-WS, issued June 4, 2021, in Docket No. 20200139-WS, *In re: Application for increase in water and wastewater rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties, by Utilities, Inc. of Florida*³

Issue 2: What is the appropriate monthly compounding rate to achieve the requested 6.43 percent annual AFUDC rate?

Recommendation: The appropriate compounding rate to achieve an annual AFUDC rate of 6.43 percent is 0.520662 percent. (Mathis)

Staff Analysis: UIF requested a monthly compounding rate of 0.535000 percent to achieve an annual AFUDC rate of 6.43 percent. In support of the requested monthly compounding rate of 0.535000 percent, the Company provided its calculations in Schedule C attached to its request. Rule 25-30.116(4), F.A.C., provides a formula for discounting the annual AFUDC rate to reflect monthly compounding. The rule also requires that the monthly compounding rate be calculated to six decimal places. Staff reviewed the Company's calculation and determined that it does not comply with the requirements of Rule 25-30.116(4), F.A.C. Staff calculated the monthly compounding AFUDC rate in accordance with Rule 25-30.116(4), F.A.C., and derived a result of 0.520662 percent. Therefore, staff determined that the appropriate monthly compounding AFUDC rate is 0.520662 percent and recommends it be approved.

Issue 3: Should the Commission approve UIF's requested effective date of January 1, 2021, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC rate should be effective January 1, 2021, for all purposes. (Mathis)

Staff Analysis: UIF's proposed AFUDC rate was calculated using a 12-month average capital structure for the period ended December 31, 2020. Rule 25-30.116(6), F.A.C., provides that:

No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC rate will be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission.

The Company's requested effective date of January 1, 2021, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore should be approved.

Issue 4: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Osborn)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.